

EU banks are ready to finance defence industry, say UniCredit and Commerzbank

European clients are ‘less open’ to working with US banks, writes **Anita Hawser**

UniCredit and Commerzbank have rejected suggestions that European banks face structural barriers to financing defence companies, affirming their readiness to support deals while urging governments to define which defence projects should take priority.

“We’re not structurally challenged,” said Andrea Coda, head of sectors and mergers and acquisitions at Italy’s largest lender, UniCredit.

He was responding to comments by Pawel Karbownik, deputy state secretary in Poland’s finance ministry, who told *The Banker* that European banks lacked the structuring expertise to help boost investment in the EU’s defence industry, following decades of under-investment by European governments since the end of the cold war.

Large presence

US banks have had a large presence in the financing of Europe’s defence companies, with experts noting their structuring expertise, access to global investors and higher risk appetite as positive factors.

But Coda said UniCredit’s clients may be “less open” to aligning themselves with US banks.

“As Europe looks to become less reliant on the US for defence, we could see similar moves play out in the financing space. We are ready to step up and support our clients in the space,” he said. “Our ambition is in line with that of European defence players to be a European champion.”

Pointing to the Italian lender’s participation in IPOs and debt capital raises for German companies such as Renk and Rheinmetall, Coda said the lender had consistently supported clients in the sector – working within its publicly

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disclosed defence policy – and has the competencies to structure defence deals. “[Defence] is a growing sector and we’re open for business,” he said.

Given its “trade finance roots”, Germany’s second-largest bank, Commerzbank, also has a strong track record in financing defence companies guided by its defence policy, according to Alexander Mann, global head of industrials.

Mann said the bank “punches above its weight” across European defence and has been involved in almost every European capital market transaction in the sector for the last two years. “We want to maintain our focus on the defence industry in light of the increased importance of our national security,” he said.

However, he acknowledged an “uncertainty” around capital provision for defence companies coming from the focus on environmental, social and governance issues, or ESG, in the last couple of years.

While companies like Airbus and BAE Systems have “all the funding sources”, Mann concedes accessing finance can be challenging for newer entrants and small and medium-sized companies.

According to the European Commission’s recently launched white paper on the future of European defence, “access to finance remains a major concern for 44 per cent of defence SMEs”, which is much higher than for smaller companies in the civilian space.

Mann said Commerzbank is known for its work with German Mittelstand companies. “Even for us it is not obvious where in the [defence] supply chain are companies that need financing.”

At the end of the day, lending to companies in the lower tiers of defence supply chains is a credit decision, said Frank Bretag, head of industrials’ advisory at UniCredit.

“We have to look at that specific company, how they’ve done in recent years, what’s the perspective going forward, and what other business they have,” he said.

Governments need to get their house in order

Mann believes more money will flow to the lower tiers of defence supply chains once there is greater clarity from European governments on future defence equipment orders. “Capital



Accessing finance can be challenging for newer entrants and SMEs in the defence sector. Image via Getty

providers, in principle, stand ready,” he said.

However, Bretag said there is still not the clarity everyone wants to see regarding governments’ defence spending plans. “They’re still working it out. Where to spend, with whom to spend, and when to spend. Is it exclusively European, German or global? For smaller and medium-sized players it will take time to get the full benefit of increased defence spending.”

To ensure it is well-positioned to serve new companies entering the defence space, as well as traditional players, two years ago UniCredit set up a dedicated defence tech coverage and advisory team to “stay close” to the latest technology developments and engage with armed forces.

Legwork heavy

Yet, according to Lars Dürschlag who heads UniCredit’s defence technology team in Munich, engaging with early stage defence tech start-ups is “legwork heavy”, as no one has a clear idea yet how

emerging technologies could change the future of defence.

To help identify key technology trends, Dürschlag and his team have to engage with multiple stakeholders, including governments, academia, investors, defence primes and the military.

For the bank to remain relevant and close to its defence customers, Coda said in-depth defence sector expertise across defence industrial companies and emerging technologies is paramount.

European banks also face stiff competition from their US counterparts, which accounted for almost half of syndicated loan and corporate bond deals in the European defence sector for the last four years, according to Dealogic data.

Experts say US banks bring structuring expertise, global investor access, and a higher risk appetite especially for syndicated loans and corporate bonds. However, Mann said defence companies also need trade finance, which is not a strength of US banks. ■

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